



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

12-23

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Governor and
Lieutenant Governor*

*For the Two Fiscal Years Ended
June 30, 2012*

NOVEMBER 2012

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
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LEGISLATIVE AUDIT DIVISION

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Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

November 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2012. This report contains one recommendation related to accounting errors resulting from lack of internal controls. The office's response to the audit recommendation begins on page B-1.

We thank the Governor, Lieutenant Governor, and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED, APPOINTED AND ADMINISTRATIVE OFFICIALS

Office of the Governor and Lieutenant Governor	Governor	Brian Schweitzer
	Lieutenant Governor	John Bohlinger
	Chief of Staff	Vivian Hammill
	Centralized Services Administrative Officer	Rosemary Harmon

For additional information concerning the Office of the Governor and Lieutenant Governor, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Office of the Governor and Lieutenant Governor

For the Two Fiscal Years Ended June 30, 2012

NOVEMBER 2012

12-23

REPORT SUMMARY

The Small Business Jobs Act of 2010 was created to help increase credit availability for small businesses. Montana was awarded \$13.1 million for programs designed to increase access to credit for small businesses. The Governor's Office (office) subgranted these funds to the Department of Commerce. The recommendations in this audit report relate to the accounting errors related to recording this federal grant.

Context

The office spent \$5.9 million and \$10 million in fiscal years 2011 and 2012, respectively. Revenues also increased from \$179 thousand to \$8.9 million in fiscal year 2012. These increases were due to the federal award for the State Small Business Credit Initiative grant for \$13.1 million. The office was authorized 60.07 full-time equivalent (FTE) positions for each fiscal year.

The office is comprised of nine programs that oversee the activities of the executive branch of Montana state government, consistent with statutory and constitutional mandates.

Results

The office had five prior audit recommendations of which four were implemented. The prior audit recommendation not implemented was related to the office continuing to spend General Fund monies before the appropriated monies in the State Special Revenue Fund for Air Transportation expenditures. The current

audit report has one recommendation related to errors resulting from a lack of accounting procedures. The lack of procedures at the office resulted in fund and account misclassification of federal funds in the amounts of over \$4 million dollars in expenditures and over \$200,000 in revenue.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail lad hotline@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (office) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Determine whether the office's financial schedules present fairly its results of operations and changes in fund balances for each of the fiscal years ended June 30, 2012, and 2011.
2. Obtain an understanding of the office's control structures to the extent necessary to support the audit of its financial schedules and, where necessary, make recommendations for improvement in the office's management and internal controls.
3. Determine whether the office complied with selected laws and regulations during the two fiscal years ended June 30, 2012.
4. Determine the status of prior audit recommendations.

This report contains one recommendation to the office. In accordance with §5-13-307, MCA, we analyzed the cost to implement the recommendation and believe the cost is not significant.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 on the next page outlines the status of the control deficiencies we identified during this audit.

Table 1
Summary of Internal Control Deficiencies

Subject	Type of Deficiency	Page
Small Business Credit Initiative Allocation Program	Material Weakness	5
Funding Source	Significant Deficiency	6

Background

The office was authorized 60.07 full-time equivalent (FTE) positions in fiscal year 2011-12. Of those positions, there are 11 statutorily exempt positions and 20 personal staff exempt positions. These positions are exempt from the provisions of the state classification law. The following paragraphs discuss the various divisions administered by the office.

Executive Office (20.63 FTE) provides administrative, legal, and press support for the office. The executive office oversees and directs the activities of executive branch agencies. The Governor will carry out the executive power vested by the Montana Constitution and see that the laws of the state are faithfully executed. The Governor will appoint and supervise the directors of each executive department. In accordance with constitutional and statutory requirements, the Governor will submit to the legislature a budget detailing expenditures and revenues. The Governor will make appointments to Boards and Commissions as required by law and establish those advisory councils he deems necessary.

In addition, the executive office administers the Office of Economic Development. It will advise the Governor on policy issues related to economic development; assist the Governor in accomplishing his economic development initiatives; lead the state's business recruitment, retention, and expansion efforts; coordinate the development and distribution of a statewide coordinated strategic economic development marketing plan; and serve as the state's primary economic development liaison. This is the program that administers the Small Business Credit Initiative Allocation Program.

Lieutenant Governor (3.94 FTE) carries out the duties prescribed in Montana's Constitution and statutes and those delegated by the Governor.

Centralized Services (4.00 FTE) provides centralized services support for the office, including budgeting, accounting, human resources, and other business services.

Office of Budget and Program Planning (18.00 FTE) assists the Governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and acts as the lead executive branch agency for compliance with the federal Single Audit Act. The Office of Budget and Program Planning establishes valid appropriations and provides policy guidance and state management memoranda to implement statutes and language governing appropriation authority.

Citizens' Advocate Office (1.50 FTE) provides accessibility to state government for Montana citizens by providing information to citizens and acting as a referral service to state agencies. The Citizens' Advocate Office historically answers 15,000-20,000 calls per year from Montanans needing a wide array of assistance.

Mental Disabilities Board of Visitors (5.00 FTE) protects the rights of the mentally ill and the developmentally disabled. The Board conducts reviews of Montana's public mental health programs and the Montana Developmental Center and assists individuals receiving services from these programs. The Mental Health Ombudsman is also accounted for in this program. The Ombudsman is appointed by the Governor to represent the interests of Montanans with regard to the need for public mental health services; to advocate for individuals who are being served; and to assist those who are seeking services for themselves or others including individuals who are in transition from public to private services.

Executive Residence Operations (1.50 FTE) maintains the Governor's official residence by properly managing, maintaining, equipping, and stocking the house for the Governor, his family, and the official public functions hosted there.

Air Transportation (1.50 FTE) provides transportation for the Governor and the Governor's staff. The Governor's aircraft is available to other state agencies for a fee. Fee revenues are used for aircraft operations and maintenance costs.

Director of Indian Affairs (2.00 FTE) serves as the Governor's liaison with the state Indian tribes, provides information and policy support on issues confronting Indians of Montana, and advises and makes recommendations to the legislative and executive branches on these issues.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2010, contained five recommendations to the office. The office implemented four recommendations and did not implement one of the recommendations related to spending nongeneral fund money first.

The Governor's Office did not expend Air Transportation funds in the State Special Revenue Fund before spending General Fund money. The Governor's Office received budget authority during fiscal years 2010-11 and 2011-12 in both the General and State Special Revenue Funds to operate the Air Transportation program. Section 17-2-108(1), MCA, requires the office to "... apply expenditures against appropriated nongeneral fund money whenever possible before using general fund appropriations."

Based on our analysis, the Governor's Office should have used \$44,464 in fiscal year 2011 and \$32,214 in fiscal year 2012 of its State Special Revenue Fund authority prior to its General Fund authority. Office personnel stated that the legislative intent for the State Special Revenue Fund appropriation was for nonroutine maintenance. The general appropriation law (House Bill 2) for the time period indicates the use of the Air Transportation State Special Revenue Fund appropriation was for aircraft maintenance and operating expenses, with no restriction for nonroutine transactions. The office has not complied with this law in eight of the last ten years. Office personnel indicated that the funds in the State Special Revenue Fund will be fully expended in fiscal year 2013. We continue to recommend the office comply with §17-2-108(1), MCA, but make no further recommendation at this time.

Chapter II – Findings and Recommendations

Accounting Errors

Office internal controls over financial accounting are deficient.

Section 17-1-102(4), MCA, requires the office to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles (GAAP). The Department of Administration develops and establishes state accounting policy to implement this statute. State accounting policy also requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with GAAP are recorded in the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) before fiscal year-end.

The following items describe instances where, due to internal control deficiencies, the office recorded transactions that did not comply with state law or state accounting policy, which resulted in misstatements on the state's accounting records. In each of the instances described below, we brought the errors to the office's attention and only the Grants, Contracts, and Donations misclassification was corrected. The accounting errors related to the Small Business Credit Initiative Allocation Program and the use of the wrong funding source for the two federal grants led to the opinion qualification on page A-1.

Small Business Credit Initiative Allocation Program

In fiscal year 2012, the office was awarded \$13,168,350 in federal funds from the Small Business Credit Initiative Allocation Program for use in programs designed to increase access to credit for small businesses. The funds were subgranted to the Department of Commerce. We identified the following misclassification and use of inconsistent accounting methods related to this program:

- ♦ Revenue in the amount of \$8,691,111 was recorded on the accounting records as Grants, Contracts, and Donations. According to state accounting policy, the receipt of cash from the federal government should be recorded as Federal Revenue. The office made the correcting entry for this transaction. Office of the Governor and Lieutenant Governor (office) personnel stated that recording federal awards is not routine for the office.
- ♦ The office received two cash allocations for this federal award, each for the amount of \$4,345,555, totaling \$8,691,111. The office recorded the first disbursement according to state accounting policy with a transfers-out to the Department of Commerce. The second disbursement was recorded directly on the Department of Commerce's accounting records. The inconsistent

treatment used within fiscal year 2012 only shows expenditures in the amount of \$4,345,555 on the schedule on page A-7. This schedule also shows unspent budget authority in the Federal Special Revenue Fund of \$8,920,619 in the Executive Office Program. The presentation indicates the office has not fully expended the amounts received. GAAP states that there is a presumption that an accounting principle, once adopted, will be used for all similar transactions and events. Office personnel stated that both accounting treatments are allowed by state accounting policy. In order to comply with GAAP the treatment of such like transactions must be consistently used.

Doubled Revenue Estimate

In fiscal year 2012, the Federal Special Revenue Fund Estimated Revenues & Transfers-In presented on the schedule on page A-5 is recorded in the amount of \$17,382,222. The amount should be \$8,691,111. Agency personnel stated that there is no clear guidance on recording revenue estimates. However, the estimate was entered on the accounting records twice.

Funding Source

The Math and Science Initiative and the Angel Fund are federal funds that are subgranted to the office by the Montana Department of Labor and Industry. According to state accounting policy, the secondary recipient must retain the same funding source as used by the primary recipient when the money was originally received. These funds should be recorded in the Federal Special Revenue fund at the Governor's Office as they are recorded that way at the Montana Department of Labor and Industry. Instead, the funds were recorded in the State Special Revenue Fund. Fiscal year 2011 revenue in the State Special Revenue Fund is overstated by \$165,960 and expenditures are overstated by \$166,575. Revenues and expenditures are understated by the same amounts in the Federal Special Revenue Fund. Fiscal year 2012 revenue in the State Special Revenue Fund is overstated by \$100,378 and expenditures are overstated by \$99,945. Revenues and expenditures are understated by the same amounts in the Federal Special Revenue Fund. Office personnel stated that state accounting policy was not clear on how to account for this activity. State accounting policy does state that the same funding source must be used.

Summary

The accounting errors described above could be eliminated or reduced by implementing internal controls. We believe these issues indicate a need for the office to improve review procedures of transactions throughout the year and at fiscal year-end to ensure that the financial activity is in compliance with state law and state accounting policy.

RECOMMENDATION #1

We recommend the office improve review procedures over transactions to ensure compliance with state accounting procedures and state law.

Independent Auditor's Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Governor and Lieutenant Governor for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

The office received two allocations of federal funds in fiscal year 2012. The office recorded the disbursement of the first allocation according to state accounting policy with a transfers-out to another state agency. The second receipt of federal funds was recorded directly to the other agency's accounting records, so it is not reflected on the office's Schedule of Total Expenditures & Transfers-Out. Note 4 describes these events, but the treatment of such like transactions must be consistently applied. In addition, in fiscal years 2011 and 2012, the office incorrectly recorded federal subgrants from another state agency in the State Special Revenue Fund instead of the Federal Special Revenue Fund. The combined effect of these accounting errors is presented on the next page.

Fiscal Year 2011 Financial Schedules

	<u>Over (Under) Stated</u>	
<u>Schedule of Changes in Fund Balance</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
Budgeted Revenues & Transfers-In	\$165,960	(\$166,575)
Budgeted Expenditures	\$166,575	(\$166,575)
Fund Balance: June 30, 2011	\$615	

<u>Schedule of Total Revenues & Transfers-In</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
Transfers-In	\$165,960	(\$165,960)

Fiscal Year 2012 Financial Schedules

<u>Schedule of Changes in Fund Balance</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
Budgeted Revenues & Transfers-In	\$100,378	(\$100,378)
Direct Entries to Fund Balance		(\$4,345,555)
Budgeted Expenditures & Transfers-Out	\$99,945	(\$4,445,500)
Fund Balance: June 30, 2012	\$433	(\$433)

<u>Schedule of Total Revenues & Transfers-In</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
Transfers-In	\$100,378	(\$100,378)

<u>Schedule of Total Expenditures & Transfers-Out</u>	<u>Executive Office Program</u>
Fund Transfers	(\$4,345,555)

In our opinion, except for the effects of the issue discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balance of the Office of the Governor and Lieutenant Governor for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

August 27, 2012

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2011	\$ (660,364)	\$ 46,436	\$ 0
ADDITIONS			
Budgeted Revenues & Transfers-In	29	115,222	8,691,111
Nonbudgeted Revenues & Transfers-In	539		100,000
Direct Entries to Fund Balance	5,758,745		(4,443,380)
Total Additions	<u>5,759,313</u>	<u>115,222</u>	<u>4,347,731</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	5,520,220	141,803	4,247,731
Nonbudgeted Expenditures & Transfers-Out	(4,312)		100,000
Prior Year Expenditures & Transfers-Out Adjustments	(968)		
Total Reductions	<u>5,514,940</u>	<u>141,803</u>	<u>4,347,731</u>
FUND BALANCE: June 30, 2012	\$ (415,991)	\$ 19,855	\$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2010	\$ <u>(451,535)</u>	\$ <u>52,136</u>
ADDITIONS		
Budgeted Revenues & Transfers-In	27	176,478
Nonbudgeted Revenues & Transfers-In	1,077	2,250
Direct Entries to Fund Balance	<u>5,554,249</u>	
Total Additions	<u>5,555,353</u>	<u>178,728</u>
REDUCTIONS		
Budgeted Expenditures	5,776,287	182,212
Nonbudgeted Expenditures	(3,327)	2,216
Prior Year Expenditures	<u>(8,778)</u>	
Total Reductions	<u>5,764,182</u>	<u>184,428</u>
FUND BALANCE: June 30, 2011	\$ <u><u>(660,364)</u></u>	\$ <u><u>46,436</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services		\$ 14,844		\$ 14,844
Transfers-in		100,378	\$ 100,000	200,378
Miscellaneous	\$ 568			568
Federal			8,691,111	8,691,111
Total Revenues & Transfers-In	568	115,222	8,791,111	8,906,901
Less: Nonbudgeted Revenues & Transfers-In	539		100,000	100,539
Actual Budgeted Revenues & Transfers-In	29	115,222	8,691,111	8,806,362
Estimated Revenues & Transfers-In	513	122,251	17,382,222	17,504,986
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (484)	\$ (7,029)	\$ (8,691,111)	\$ (8,698,624)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Taxes	\$ (1)			\$ (1)
Charges for Services		\$ 344		344
Grants, Contracts, and Donations		(12,792)	\$ (8,691,111)	(8,703,903)
Transfers-in		5,419		5,419
Miscellaneous	(483)			(483)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (484)	\$ (7,029)	\$ (8,691,111)	\$ (8,698,624)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 400		\$ 400
Charges for Services		\$ 10,517	10,517
Transfers-in		168,211	168,211
Miscellaneous	704		704
Total Revenues & Transfers-In	<u>1,104</u>	<u>178,728</u>	<u>179,832</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>1,077</u>	<u>2,250</u>	<u>3,327</u>
Actual Budgeted Revenues & Transfers-In	<u>27</u>	<u>176,478</u>	<u>176,505</u>
Estimated Revenues & Transfers-In	<u>1,262</u>	<u>213,577</u>	<u>214,839</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,235)</u>	<u>\$ (37,099)</u>	<u>\$ (38,334)</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Taxes	\$ (750)		\$ (750)
Charges for Services		\$ (483)	(483)
Transfers-in		(36,616)	(36,616)
Miscellaneous	(485)		(485)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,235)</u>	<u>\$ (37,099)</u>	<u>\$ (38,334)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air Transportation Program	Centralized Services Program	Citizens' Advocate Office	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities Board of Visitors	Office of Budget & Program Planning	Total
Personal Services										
Salaries	\$ 70,698	\$ 250,059	\$ 68,288	\$ 118,900	\$ 50,560	\$ 1,283,186	\$ 245,863	\$ 261,117	\$ 965,320	\$ 3,316,991
Employee Benefits	23,273	65,822	28,758	36,073	25,609	354,650	70,446	94,142	290,943	989,716
Total	<u>93,971</u>	<u>315,881</u>	<u>97,046</u>	<u>154,973</u>	<u>76,169</u>	<u>1,640,836</u>	<u>316,309</u>	<u>355,259</u>	<u>1,256,263</u>	<u>4,306,707</u>
Operating Expenses										
Other Services	10,112	19,609	1,737	3,342	4,941	402,614	3,686	19,893	62,151	528,085
Supplies & Materials	70,371	13,224	525	1,790	38,023	46,298	1,282	3,852	20,697	196,062
Communications	7,271	4,275	6,092	4,562	3,972	70,557	3,166	7,824	17,315	125,034
Travel	4,920	2,076		2,830	580	55,291	4,949	14,977	13,429	99,052
Rent	225			4,100		97,698	4,046	4,160	45,314	155,543
Repair & Maintenance	61,363	4,272		240	5,966	6,298		1,040	2,650	81,829
Other Expenses	1,628	9,303	25	662	2,523	104,479	3,057	3,889	41,040	166,606
Total	<u>155,890</u>	<u>52,759</u>	<u>8,379</u>	<u>17,526</u>	<u>56,005</u>	<u>783,235</u>	<u>20,186</u>	<u>55,635</u>	<u>202,596</u>	<u>1,352,211</u>
Equipment & Intangible Assets										
Total										
Transfers-out										
Fund transfers						4,345,556				4,345,556
Total						<u>4,345,556</u>				<u>4,345,556</u>
Total Expenditures & Transfers-Out	\$ <u>249,861</u>	\$ <u>368,640</u>	\$ <u>105,425</u>	\$ <u>172,499</u>	\$ <u>132,174</u>	\$ <u>6,769,627</u>	\$ <u>336,495</u>	\$ <u>410,894</u>	\$ <u>1,458,859</u>	\$ <u>10,004,474</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 222,861	\$ 368,640	\$ 90,581	\$ 172,499	\$ 132,174	\$ 2,321,937	\$ 336,495	\$ 410,894	\$ 1,458,859	\$ 5,514,940
State Special Revenue Fund	27,000		14,844			99,959				141,803
Federal Special Revenue Fund						4,347,731				4,347,731
Total Expenditures & Transfers-Out	<u>249,861</u>	<u>368,640</u>	<u>105,425</u>	<u>172,499</u>	<u>132,174</u>	<u>6,769,627</u>	<u>336,495</u>	<u>410,894</u>	<u>1,458,859</u>	<u>10,004,474</u>
Less: Nonbudgeted Expenditures & Transfers-Out		(4,312)				100,000				95,688
Prior Year Expenditures & Transfers-Out Adjustments	<u>122</u>	<u>67</u>		<u>118</u>	<u>81</u>	<u>(1,428)</u>		<u>73</u>		<u>(967)</u>
Actual Budgeted Expenditures & Transfers-Out	<u>249,739</u>	<u>372,885</u>	<u>105,425</u>	<u>172,381</u>	<u>132,093</u>	<u>6,671,055</u>	<u>336,495</u>	<u>410,821</u>	<u>1,458,859</u>	<u>9,909,753</u>
Budget Authority	358,281	499,800	112,930	172,789	132,094	15,837,106	339,252	422,854	1,506,664	19,381,770
Unspent Budget Authority	\$ <u>108,542</u>	\$ <u>126,915</u>	\$ <u>7,505</u>	\$ <u>408</u>	\$ <u>1</u>	\$ <u>9,166,051</u>	\$ <u>2,757</u>	\$ <u>12,033</u>	\$ <u>47,805</u>	\$ <u>9,472,017</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 90,523	\$ 126,915	\$ 4,072	\$ 408	\$ 1	\$ 245,432	\$ 2,757	\$ 12,033	\$ 47,805	\$ 529,946
State Special Revenue Fund	18,019		3,433							21,452
Federal Special Revenue Fund						8,920,619				8,920,619
Unspent Budget Authority	\$ <u>108,542</u>	\$ <u>126,915</u>	\$ <u>7,505</u>	\$ <u>408</u>	\$ <u>1</u>	\$ <u>9,166,051</u>	\$ <u>2,757</u>	\$ <u>12,033</u>	\$ <u>47,805</u>	\$ <u>9,472,017</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

GOVERNOR'S OFFICE
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES	Air Transportation Program	Centralized Services Program	Citizens' Advocate Office	Coordinator of Indian Affairs	Executive Residence Operations	Executive Office Program	Lieutenant Governor's Office	Mental Disabilities Board of Visitors	Office of Budget & Program Planning	Total
Personal Services										
Salaries	\$ 82,504	\$ 217,542	\$ 65,678	\$ 100,175	\$ 45,603	\$ 1,227,024	\$ 236,945	\$ 239,735	\$ 996,494	\$ 3,211,700
Employee Benefits	30,944	63,690	27,401	28,505	24,018	342,848	68,716	86,035	287,811	959,968
Total	113,448	281,232	93,079	128,680	69,621	1,569,872	305,661	325,770	1,284,305	4,171,668
Operating Expenses										
Other Services	10,554	12,807	2,021	3,408	5,131	767,076	4,708	21,591	47,631	874,927
Supplies & Materials	59,091	34,217	1,275	5,527	44,063	33,664	2,235	7,520	18,560	206,152
Communications	1,184	7,373	6,809	5,120	3,206	75,952	4,898	9,087	26,637	140,266
Travel	1,601	715		2,030	490	38,398	8,836	12,401	622	65,093
Rent				5,148		101,276	15,208	4,816	56,868	183,316
Repair & Maintenance	53,676			536	2,944	8,577	815	726	4,478	71,752
Other Expenses	3,089	2,611		2,559	2,112	115,559	12,416	2,427	87,818	228,591
Total	129,195	57,723	10,105	24,328	57,946	1,140,502	49,116	58,568	242,614	1,770,097
Equipment & Intangible Assets										
Equipment		6,845								6,845
Total		6,845								6,845
Total Expenditures	\$ 242,643	\$ 345,800	\$ 103,184	\$ 153,008	\$ 127,567	\$ 2,710,374	\$ 354,777	\$ 384,338	\$ 1,526,919	\$ 5,948,610
EXPENDITURES BY FUND										
General Fund	\$ 242,643	\$ 345,800	\$ 87,590	\$ 153,008	\$ 127,567	\$ 2,541,540	\$ 354,777	\$ 384,338	\$ 1,526,919	\$ 5,764,182
State Special Revenue Fund			15,594			168,834				184,428
Total Expenditures	242,643	345,800	103,184	153,008	127,567	2,710,374	354,777	384,338	1,526,919	5,948,610
Less: Nonbudgeted Expenditures	(356)	(256)	(80)	(131)	(54)	1,619	(240)	(248)	(1,365)	(1,111)
Prior Year Expenditures Adjustments	(618)					(5,638)		14	(2,536)	(8,778)
Actual Budgeted Expenditures	243,617	346,056	103,264	153,139	127,621	2,714,393	355,017	384,572	1,530,820	5,958,499
Budget Authority	295,323	410,666	114,569	187,766	130,914	2,900,871	358,007	410,324	5,577,817	10,386,257
Unspent Budget Authority	\$ 51,706	\$ 64,610	\$ 11,305	\$ 34,627	\$ 3,293	\$ 186,478	\$ 2,990	\$ 25,752	\$ 4,046,997	\$ 4,427,758
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 43,706	\$ 64,610	\$ 363	\$ 34,627	\$ 3,293	\$ 91,519	\$ 2,990	\$ 25,752	\$ 3,061,520	\$ 3,328,380
State Special Revenue Fund	8,000		10,942			94,959			443,877	557,778
Federal Special Revenue Fund									491,600	491,600
Internal Service Fund									50,000	50,000
Unspent Budget Authority	\$ 51,706	\$ 64,610	\$ 11,305	\$ 34,627	\$ 3,293	\$ 186,478	\$ 2,990	\$ 25,752	\$ 4,046,997	\$ 4,427,758

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Office of the Governor and Lieutenant Governor

Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the office records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Office State Special Revenue Funds include activity related to agreements between other state agencies and the Governor's Office (including funding for the Math and Science Initiative and the Angel Network Training and Development contract from federal Workforce Investment Act funds at the Department of Labor and Industry in fiscal years 2011 and 2012), as well as

the Air Transportation and Citizen's Advocate accounts. The Environmental Contingency account, which previously was reported by the Governor's Office, was transferred to the Department of Natural Resources and Conservation in fiscal year 2010.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Office Federal Special Revenue Funds primarily include activity related to the Allocation Agreement between the State and the United States Department of Treasury under the State Small Business Credit Initiative Act of 2010.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2011 and June 30, 2012.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the General Fund for fiscal years 2011 and 2012 and the Federal Special Revenue Fund for fiscal year 2012 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Change in Accounting Presentation

The Governor's Office is a recipient of federal funds under the State Small Business Credit Initiative Act of 2010, OMB Control #1505-0227. The purpose of the federal allocation to the State of Montana is to increase the amount of capital made available by private lenders to small businesses, and is made available under an allocation agreement between the United States Department of the Treasury and the State of Montana. The Department of Commerce, as an entity of the Executive Branch, administers the approved state program including all the reporting as required by the allocation agreement. In July, 2011, the Governor's Office received its first allocation of \$4,345,556 which was deposited into a federal special revenue fund controlled by the Governor's Office. Funds were later transferred to the Department of Commerce. In December, 2011, the second allocation of \$4,345,555 was received by the Governor's Office and was deposited directly into the Department of Commerce federal special revenue fund to streamline and simplify the distribution and reporting requirements for the Initiative. The initial transfer between the two agency funds was not reversed

and restated as a direct entry to the Department of Commerce's federal special revenue fund, which results in an inconsistency between the reporting of similar transactions within the same fiscal year on the Schedule of Changes in Fund Balances.

5. Budgeted Revenues & Transfers-In Over (Under) Estimated

An \$8,691,111 revenue estimate was established in both the State Grants and Contracts class and the Federal Revenue class for the fiscal year ended June 30, 2012. The related collections were recorded in the Federal Revenue class, resulting in Budgeted Revenue & Transfers-In Over (Under) Estimated of (\$8,691,111) in the State Grants and Contracts class for the fiscal year ended June 30, 2012.

6. Unspent Budget Authority

The significant unspent budget authority amounts on the Schedule of Total Expenditures & Transfers-Out relate primarily to the federal allocation of funds under the Montana State Small Business Credit Initiative within the Executive Office Program. The total amount of the federal allocation to the State of Montana is \$13,168,350, disbursed in three equal installments. The full amount was budgeted for expenditure in fiscal year 2012 out of the Governor's Office federal special revenue fund. As a result of the procedural change in accounting presentation, disclosed in footnote #4, only the Governor's Office's transfer of the first allocation of the federal funds to the Department of Commerce are reflected as actual expenditures or transfers-out for the Governor's Office. Expenditures relating to the subsequent receipt of funds were recorded directly in the federal fund established at the Department of Commerce and do not appear in the financial schedules for the Governor's Office. A final disbursement of funds by the United States Treasury to the State of Montana was not received, nor expended prior to fiscal year-end 2012. As a result, the Schedule of Total Expenditures & Transfers-Out reflects unspent federal budget authority of \$8,920,619.

7. Personal Services Expenditures

The personal services expenditures included on the Schedule of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2011 and June 30, 2012, do not include the salaries and benefits of an employee loaned to the office by another state agency. We estimate that salaries and benefits of the loaned employee to be approximately \$52,875 in fiscal year 2011 and \$54,407 in fiscal year 2012.

OFFICE OF THE
GOVERNOR AND
LIEUTENANT GOVERNOR

OFFICE RESPONSE

OFFICE OF THE GOVERNOR
STATE OF MONTANA

B-1

BRIAN SCHWEITZER
GOVERNOR



JOHN BOHLINGER
LT. GOVERNOR

November 28, 2012

RECEIVED
NOV 25 2012
LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, C.P.A.
Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59602-1705

By: Hand-delivery.

Dear Ms. Hunthausen:

The following is the response to the recommendation contained in the audit of the Montana Office of the Governor and Lieutenant Governor for the two fiscal years ending June 30, 2012.

Recommendation #1:

We recommend the office improve review procedures over transactions to ensure compliance with state accounting procedures and state law.

Response: Concur. The Governor's Office has implemented internal controls. Our staff is in compliance with federal and state laws, legislative intent, regulations, and policies and does review and reconcile recorded entries.

We thank Ms. Hunthausen and her staff for their professionalism and courtesy as they conducted the audit.

Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Viv Hammill".

Viv Hammill,
Chief of Staff